

# The Poseidon Principles: A Groundbreaking New Formula for Navigating Decarbonization

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For the past 18 months, Rocky Mountain Institute (RMI) has worked behind closed doors with an unprecedented coalition to establish the Poseidon Principles. Today, June 18, 2019, the Principles become public as 11 banks representing approximately \$100 billion become the founding signatories of the agreement.

The Poseidon Principles are a new type of climate change agreement, the significance of which is difficult to overstate. As the first global, sector-wide, and self-governing climate alignment agreement among financial institutions, these principles redefine the role of banks in the maritime shipping sector and lay a clear path for the broader financial sector to make new, significant contributions to global decarbonization.

The Poseidon Principles are the first example of financial players joining forces to drive greenhouse gas (GHG) emissions reductions in line with a climate target. Signatories to the Poseidon Principles will work to foster the decarbonization of the maritime shipping sector, which represents two to three percent of global GHG emissions—around the same amount as the nation of Germany. They will do this in line with the International Maritime Organization's (IMO's) climate target of 50 percent absolute GHG reductions by 2050.

## Safe Passage Through Uncharted Waters

The first clue in understanding how and why this groundbreaking achievement came to fruition is in its name.

It is said that sailors prayed to Poseidon, the god of the sea, for safe passage. As the physical impacts of climate change become increasingly tangible, they engender ever more urgent calls for policies to drive global emissions toward zero. The physical impacts of a changing climate, transition risks of changing climate policies, and reputational risks of failing to contribute to society's decarbonization create a challenging new cocktail for all participants in the global economy.

This new reality must be understood and managed carefully, especially in the financial sector which often has years-long exposure to capital- and carbon-intensive assets like ships, power stations, and steel mills.[ [HYPERLINK "https://rmi.org/the-poseidon-principles-a-groundbreaking-new-formula-for-navigating-decarbonization/"](https://rmi.org/the-poseidon-principles-a-groundbreaking-new-formula-for-navigating-decarbonization/) ]The Poseidon Principles place clear-eyed navigators at the helm to traverse these uncharted waters of global decarbonization. Not only will the Principles play a tremendous role in ensuring the safe passage of the shipping industry itself, but they also establish a path for the financial sector to play a significant and positive role in managing its own risks while contributing significantly to the achievement of society's common, global decarbonization goals.

## What Makes the Poseidon Principles Exemplary? It's in the Details

The Poseidon Principles establish a framework for assessing and disclosing the climate alignment of ship finance portfolios. In simple terms, climate alignment is defined as the degree to which the GHG emissions associated with a financial institution's portfolio are in line with an ever-reducing trajectory to the IMO's 2050 climate target. The design of the Principles makes this agreement far more than a typical voluntary disclosure agreement. Here's why:

### **Paradigm Shift: Climate Alignment**

The Poseidon Principles demonstrate that the financial sector can look after its own interests while also leveraging collective agency to align its own portfolios—and thus the real economy—with climate targets. By demonstrating this, we think the Poseidon Principles will catalyze a paradigm shift toward climate alignment in the financial sector.

### **Overcoming Competition Through Scale**

Competition is the key challenge to any bank, investor, or other financial player wishing to “climate-align” itself with a target like the Paris Agreement or IMO Agreement. For example, if a single bank tries to align itself with a climate agreement, it may have to rebalance its portfolio away from carbon-intensive industries. If it chooses to maintain its role in carbon-intensive industries, it runs a significant risk of losing clients and projects to competitors. Either way, the world goes on largely as it was.

The first key innovation of the Poseidon Principles is to overcome this challenge by achieving collective action at a global scale. Currently, the Principles represent around \$100 billion of the global shipping portfolio. This is expected to grow to cover a significant majority of the global shipping loan book in the future. With scale comes both safety in numbers and an unprecedented ability to require clients to make short- and long-term cuts to emissions in exchange for access to lending.

### **Establishing a Level Playing field**

The Poseidon Principles enable global scale by establishing a robust level playing field. They are comprised of four individual principles—assessment, accountability, enforcement, and transparency—that have been meticulously crafted to define how climate alignment is measured and how it will be disclosed. Internal transparency mechanisms are also built into the agreement to ensure veracity of data and trust among signatories.

### **Building an Agreement that “Works”**

The Poseidon Principles were developed through an unprecedented collaboration between some of the world's largest banks—Citi, Société Générale, and DNB; leading industry players—A.P. Møller Mærsk, Cargill, Euronav, Lloyd's Register, and Watson Farley & Williams; and leading civil society organizations—Global Maritime Forum, Rocky Mountain Institute, and University College London Energy Institute.

This close collaboration from November 2017 to June 2019 enabled the design of an agreement that not only establishes a level playing field, but is also effective, pragmatic, and efficient for a global and diverse group of Signatories.

### **Planning for the Future**

A final innovation of the Poseidon Principles is that they are built to be a dynamic, self-governing agreement. In their initial form, the Principles are applicable to lenders,

lessors, and financial guarantors and apply to one environmental issue: climate change. The agreement will be updated and expanded by signatories to ensure that the Principles remain relevant and effective. Expert advisors, including Rocky Mountain Institute and University College London Energy Institute, will support this process. Global Maritime Forum will act as the secretariat to the Poseidon Principles Association, which will govern the agreement into the future.

#### **The Big Picture: The Importance of the Poseidon Principles Beyond Shipping**

The Poseidon Principles redefine not only what industry ownership of decarbonization looks like, but also how private financial players can contribute to global decarbonization in the world's most challenging and carbon-intensive sectors.

This is significant because capital-intensive assets like ships, planes, power stations, and manufacturing facilities are vital to our modern economy, yet today account for an incredible 78 percent of global GHG emissions. In order to hold global warming well below 2°C as the Paris Agreement requires, we will need to see the assets that underpin our economy completely transformed by mid-century.

Finance has long been identified as a crucial enabler for a transformation of this scale, yet efforts to date have fallen short of this truly monumental task.

We believe the Poseidon Principles provide a pathbreaking example and model for enlisting more of the financial sector in a transformation of this scale. The Poseidon model is nuanced; it enables financial players to begin aligning themselves with climate targets—and thus the assets and companies they finance—without unproductively placing the entire burden of decarbonization on the financial sector alone.

This model has the potential to provide safe passage for other parts of our modern economy as well as to ensure the prosperity of those individuals who work in and benefit from it. We commend the initial signatories to the Poseidon Principles and are optimistic about the future of the agreement and the initiatives that it inspires.

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